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FRANCHISING CLOSE-UP: THE PUSH TO DIVERSIFY PAGE 106

Restaurant Business

A BILL PUBLICATION NOVEMBER 20, 1986

THE NEW TAX LAW: WHAT IT MEANS FOR YOU

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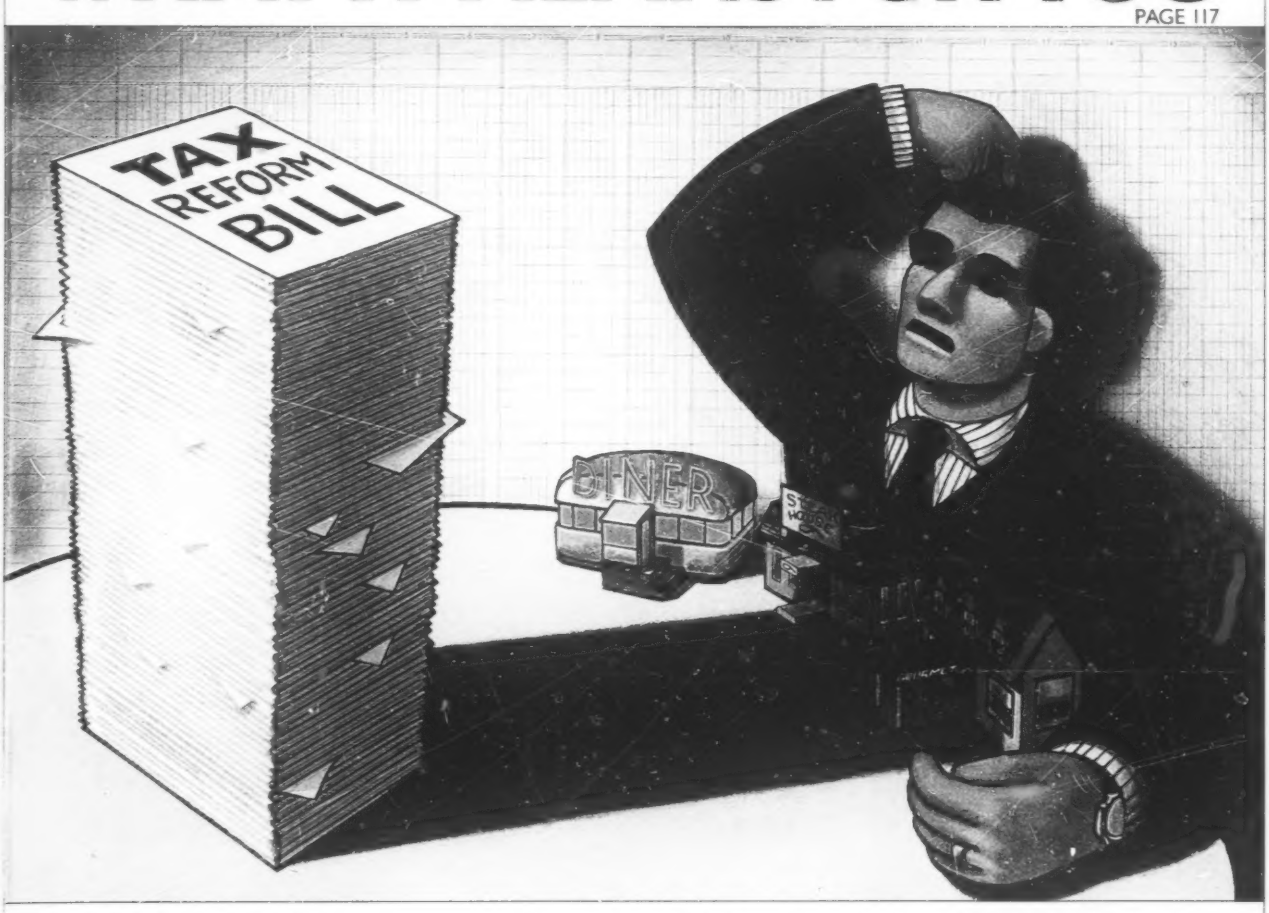

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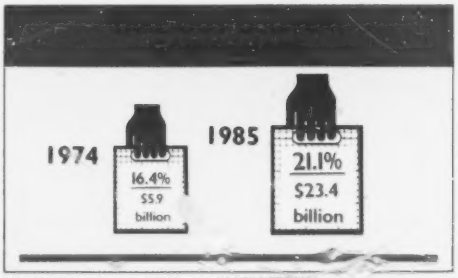
BUSINESS BAROMETER

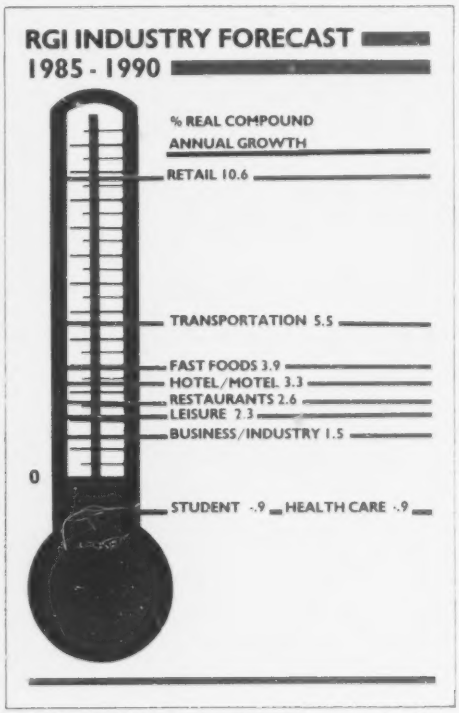
The Hard Facts Shaping Our Industry



SOURCE: RESTAURANT BUSINESS SPECTRUM

Off-Premise Business Booms

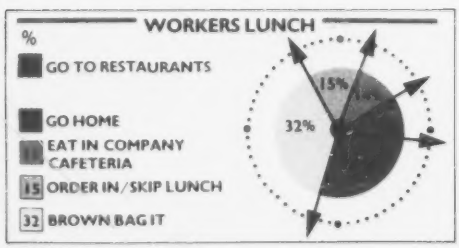
Take-out/drive-thru/delivery market carved out 21.1% of 1985 eating place sales ($111.1 billion). This represents almost a five-point gain over its 16.4% share of the $36.2 billion eating place market in 1974.



SOURCE: RESTAURANT GROWTH INDEX

Winners & Losers for 1985-1990

Foodservice sales from retail stores should outstrip all industry segments in terms of real growth projected for 1985-1990, according to our 19th Annual Restaurant Growth Index. RGI is forecasting a 10.6% real compound annual growth rate for retail foodservice, largely fueled by increased foodservice sales in convenience and specialized retail stores. The transportation segment is expected to experience the next highest real growth rate of 5.5% over the next five years if Americans continue their quickening pace of travel. The number of personal and business trips over 100 miles by Americans rose 7% to 1.1 billion in 1985 over 1984.



SOURCE: ROPER, 1986

26% of U. S. Workers Lunch Out

Restaurants grab 26% of workers for lunch, according to Roper. The company cafeteria only attracts 14%. Surprisingly, 32% of U.S. workers still opt to brown bag it.

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Piece Meal: Chicken wings, page 155.

Cover Story

TAXES **THE NEW BILL.** *There is only one thing certain about the tax reform bill: It isn't simple; it is about 2,000 pages long and is cumbersome and confusing. Restaurateurs won't know the full impact for some time, and effects will vary greatly, depending on such variables as pace of expansion and financial structure. The tax bill's macroeconomic effect is the biggest imponderable* 117

Food and Beverage

DRAFTS, CARAFES & SPIRITS **LIQUEURS AND CORDIALS.** *A spoonful of liqueurs and cordials in desserts adds a sense of festivity, a dimension of mystique. Spirited desserts also maximize usage of your bar inventory as they raise the check average*....139

MENU IDEAS **SANDWICHES.** *This category has evolved way beyond peanut butter and jelly. In the RB Test Kitchen, food editor Maria Cianci has taken the basic concept of a filling between two slabs of bread from the traditional to imaginative concoctions* 147

PIECE MEAL **CHICKEN WINGS.** *Some 20 years ago, a combination of wings with hot sauce served with blue cheese dip and celery sticks—concocted in the Anchor Bar, in Buffalo, NY—put wings on the forefront of finger-food favorites, where they have remained ever since*....155

Features

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INDEPENDENT **A&R ENTERPRISES.** *Under this corporate umbrella, Rusty Harmsen is pulling in $9 million annually, operating an eclectic group of 11 restaurants in the Midwest. By year-end, A&R Enterprises will have added two more eateries, boosting revenues to $11 million* 92

FRANCHISING **THE PUSH TO DIVERSIFY.** *Franchising is not so simple anymore, as successful franchisors and franchisees get into additional concepts. Franchisors develop or acquire second concepts; franchisees license concepts from other companies, or develop concepts of their own and become franchisors as well. This complex situation has given rise to the strategy of "portfolio management."*....106

CONSTRUCTION **CHURCH'S FRIED CHICKEN.** *This San Antonio, TX-based fast food chain manufactures 70 percent of its stores through a wholly-owned subsidiary. These prefabricated units generally take a maximum of five weeks to build, as opposed to six months for a conventional building*....126

ETHNIC **MEXIGO INC.** *Entrepreneurs Barbara Lieu and Bruce Galloway founded this three-unit chain 11 months ago to cash in on take-out and delivery to the tune of $1.3 million in the first year*....160

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GUEST COLUMNIST

Insight into Market Statistics

BY RONALD N. PAUL, PRESIDENT, TECHNOMIC CONSULTANTS

Maybe everything we thought we knew about the chain restaurant market isn't true, and we need to start paying more attention to the smaller chains and independents.

For some time now, Technomic Consultants has been tracking the growth and evolution of the chain restaurant industry. We have been fortunate in being able to work closely with the International Foodservice Manufacturers Association (IFMA) in preparing an annual study of the chain restaurant market. One of the important statistics that this study generated is the share of the total restaurant market (Separate Eating Place segment as defined by the government) the top chains represent. The most noteworthy statistic that gets publicized is the share of the market captured by the top 100 restaurant companies. These restaurant companies, which include organizations like Pillsbury, Marriott, W.R. Grace, etc., operate some 200 chains and at the end of 1985 accounted for some 46 percent of the total restaurant market.

It seems important to point out that this overall statistic is misleading. Let me illustrate what we mean. The accompanying table shows the relative share of the total market in the categories for which we have data. We are not able to break out midscale and upscale restaurants as individual groups since there is no government data source for these segments. The government does provide a statistic on the size of the quick service restaurants, which are referred to as limited menu restaurants.

As the table shows, at year-end 1985, the share of total restaurant industry dollars accounted for by major chains was 46 percent through the operation of some 26 percent of the total units. It's important to note that the penetration was really 80 percent in quick service restaurants and only 23 percent for the balance of the industry.

In effect, it can be seen that the overall statistic overstates the importance of the major chains since their penetration in the midscale and upscale categories stands at less than 23 percent of the dollars and 10 percent of the units.

Perhaps we have been guilty of not "spreading the word" that yes, the chain market is in fact responsible for much of the growth but, as the statistics indicate, there is still a large small chain and independent midscale-upscale market that has not consolidated to the same degree as the quick service category has. Therefore, maybe everything we thought we knew about the chain restaurant market isn't true, and we need to spend more time paying attention to the smaller chains and independents.

On occasion, publisher Jeffrey Berlind invites industry executives and analysts to appear in this space to discuss topics of particular importance to our readers.

TOP 100 RESTAURANT COMPANIES

Top 100's Share of	Sales		Units	
	[illegible]	[illegible]	[illegible]	[illegible]
Quick Service Restaurants	67.4%	80.1%	37.7%	45.2%
Midscale & Upscale Restaurants	17.7%	22.7%	6.2%	9.3%
All Separate Eating Places	35.9%	46.0%	18.3%	26.4%

Source: TECHNOMIC CONSULTANTS/IFMA Seller's Guide to Chain Restaurants.